

RFP OMBOOP12100-GlblCustSv Global Custody Services Questions & Answers

NOTE: The following list has been compiled in the order of any page or section reference identified in the submitted questions. Those questions without a page or section reference have been grouped based on our best efforts. Similar questions regarding the same basic question have been grouped together. All questions received by the February 10, 2012 before 3:00 p.m. deadline are included below. This list represents the complete amount of additional comment provided by DPERS to responders to the RFP.

The RFP frequently references "master trust" or "trust" services (Executive Summary, **page1**; Sections 1.1, 3.08, 4.0, etc.). Please confirm that DPERS is seeking for vendors to act as custodian only and not to serve as a trustee.

DPERS is seeking a vendor to act as a custodian in compliance with Section 2.01.6 of the RFP.

For questions regarding the **chart on Page 6**, Investment Management and Accounting Information, please refer to the responses for Page 40 below.

To meet the requirement listed on **p.11, Technology #1**, does DPERS require a custom feed into their system or is information in an Excel format acceptable?

At this point, Excel feed with data partitioned per cell is acceptable for investment downloads. We use Microsoft Office for general tracking spreadsheets and Microsoft Dynamics GP2010 (formerly Great Plains) for financial reporting. We may consider utilizing a direct feed to GP2010 in the future; however those discussions are just in the early stages.

Please elaborate on your compliance monitoring requirements noted on **p.12**. Is DPERS looking for the custodian to provide any additional compliance monitoring support or service?

DPERS is interested in custodian-provided online scheduled or ad hoc reporting of individual investment manager compliance with contractually agreed asset mix

(such as no more than x% cash or x% investment in global or derivative securities) as well as with total portfolio asset allocation within established guidelines.

In regards to **2.01 Minimum Requirements, page 17, 2.01**, please confirm that we need to meet this requirement. It is our understanding that the statute applies to contractors defined as construction/real estate development contractors.

As a federally chartered, national banking association, authorized by the Comptroller of the Currency of the U.S. Department of the Treasury, to carry out banking/custody business, do you require a separate **Delaware business license** in order for your custodian to provide the services contemplated under this RFP to DPERS?.

This language is part of the State's RFP boilerplate language. While we do not believe that a Delaware business license will be required, we have been advised to reply that each responder should seek and follow the guidance of your tax/legal advisors on this matter. Further inquiries should be made to the Division of Revenue and/or the State Banking Commissioner – please include any communications from those authorities if you are invited to provide an oral presentation and if you take the position that you are exempt from the Delaware Business License requirement.

Are you looking for bidders to provide responses to **Section 2.02.3 on p.18** or are these items listed for informational purposes? These topics appear to be covered in the Questionnaire.

As Section 2.0, Required Information, indicates that all items in Sections 2.0, 3.0, 4.0 and Appendices A and B should be answered in the order provided, we ask that you follow that direction.

3.05 Accounting and Reporting Capabilities (beginning on p. 29)

Do you currently receive month end valuation services (accounting) from your current provider or daily valuation services (daily accounting)? Please confirm what business day after month end do you require your accounting statement?

We receive month end valuation services by the 7th business day of the following month. We generally work with the custodian to keep the 6/30 reporting period open longer in order to ensure the best fiscal year-end reporting. Daily valuation is provided via on-line for separate accounts.

Do any of the plans require unitized accounting? If yes, please provide additional details?

No plans are unitized. Our current Custodial Bank provides time-weighted allocation plan accounting. The selected Vendor is expected to provide these services.

DPERS mentions “method of reporting gains and losses to be discussed with vendor.” Can you please clarify?

All accounting processes follow GAAP. DPERS may direct the custodian to accept the receipt of the proceeds from a class action litigation or similar source as an “other gain.”

Additionally, you mention “specialized reporting” for compliance. Can you please clarify? Do you currently receive compliance reporting?

Analysis of investment manager Schedule A (Investment Objectives and Portfolio Composition) compliance.

What is DPERS’ fee payment process? Can we direct charge?

We pay our custodian fee on a quarterly basis by the direct withdrawal of the fee from a designated cash account. Sweep, currency fees, and similar transactions are charged against the appropriate account when the transaction is processed and are reported as expenses on the monthly income and expense report.

Do you do current settle repos transactions? In addition, do you current settle derivative transaction? Can you provide an estimate volume for both?

Not at this time.

Can you advise what type of class action services are you anticipating the new custodian to provide? Do you require the new custodian to perform historical class actions?

We would expect the new custodian to provide timely class action proof of claim filing, monitoring, and reporting services for events that occur within the time frame of the new contract. Past custodian(s) would continue to monitor and send updates and realized proceeds on a regular basis for events that occurred within prior contract periods. Additionally, DPERS utilizes the services of a securities

litigation monitoring firm, that downloads data from the current custodian to provide monitoring.

Can you provide an estimated monthly or annual volume of class actions processing with your current custodian? Can you provide the number of class actions that are currently outstanding awaiting payment with your current provider?

Since July 1, 2006, we have a total of 934 listed class actions (note that some entities have multiple actions, including one entity with 262 actions against each of its three class designations). 64 Actions are closed, 13 are disbursing, 15 are filed. The one exceptional entity has 318 in notified status and 524 are open.

3.05.24 Foreign Exchange Capabilities (p. 31)

Can you provide the USD equivalent value for foreign exchange executions done on a standing or non-negotiated basis during the prior 6 months? If yes, can you provide a USD equivalent value breakdown by market?

DPERS is currently evaluating its foreign exchange policies.

3.07 Cash Management (beginning on p. 35)

What are your average daily cash balance levels, both in USD and foreign currency? Can you provide currency breakdown by market?

This information will be provided to prospective vendors upon the completion of the nondisclosure agreement included at the end of this document.

What investment vehicles are you currently utilizing for your short-term cash today? Can you provide a sample (i.e. name, fund, etc.)?

Primarily using the current custodian's short-term cash account Collective Daily Government STIF (MFB NTGI COLL DLY GOVT STIF).

What are your investment guidelines for short-term cash/investments (i.e. regarding permissible instruments, counterparty limits, etc)?

Page 11 of the DPERS Investment Policies guidelines direct that a minimum of 15% of the Fund is to be invested in investment grade fixed income securities or cash equivalents, and that the fixed income allocation (including cash) should fall between a minimum of 20% and a maximum of 80%. The Investment Policy

guidelines are available at http://www.delawarepensions.com/includes/dpersinvpolicy_final_092410.pdf. DPERS may move from a government STIF to the custodian's STIF as warranted by market conditions.

3.10 Securities Lending (beginning on p. 37)

Are you currently engaged in securities lending?

No, although the Board has approved reentering upon completing contract discussions.

What is the aggregate value on loan? Please provide a detailed listing by account including cusip number, units, market value, asset type, and security description of loans outstanding.

n/a

Please provide the current (and expected) cash collateral investment guidelines for this program or for any future program?

DPERS will only accept obligations issued by the US Government as collateral. See Appendix B.

Are you expecting the transition any of these legacy cash collateral investments to the new provider? Please provide a detailed asset listing for all assets (in Excel format) for analysis.

n/a

Please provide some information on your current custody fee arrangement and securities lending revenue split.

Please provide some information on your current custody fee arrangement and securities lending revenue split.

DPERS considers this information proprietary. Please provide your best bid for these services.

Exactly which sections of the RFP need to be completed for a **Stand-Alone Securities Lending** bid?

Complete all questions relevant to Securities Lending and meet all general requirements.

In order to answer the fee split portion of Section 3.10 question 12 (p.37) accurately, a securities lending estimate should be performed. Would you like a securities lending estimate? If so, please provide an asset list. Please verify that the restrictions delineated in Appendix B should be applied to any securities lending estimate performed. Please verify whether the estimate should be forward looking or backward looking. If an estimate is desired, should a specific format be followed?

Since we are not currently in a securities lending program, we ask you to provide your best estimate.

Would you please describe the issues the Board may have around **accepting cash collateral**?

Appendix B states that only U.S. Treasuries are acceptable collateral. This contradicts Section 1.4.10 1.c (p.14). which states “Require that all loans be collateralized by either cash or US government Securities.” Please clarify if cash is acceptable as collateral and if so, please provide cash collateral investment guidelines.

This is an error on our part. DPERS will only accept obligations issued by the US Government as collateral. See Appendix B.

4.0 Cost Proposal (beginning on page 39)

Please provide an **asset holdings** file in Excel format that includes all your holding by fund including but not limited to the market of settlement, country, cusip/sedol, market value, & security description, units, and asset type.

Please provide a summary list of **transaction volumes** by market/country for the last 12 months including transaction type (i.e., buys/sells, cash, memo posting etc.), and any additional volumes (P&I payments, wires, non standard trades, etc).

In order to provide a fee proposal that considers the impact of securities lending, please provide a complete **asset list** with security identifiers and market values in an Excel format.

In order to provide an accurate and detailed fee quote/split as requested for sec lending services; would you kindly provide the **fund holdings** in an Excel format?

Please provide **market values by country of origin** for the separately managed international assets along with annual transaction volumes (buys and sells only) by country.

This information will be provided to prospective vendors upon the completion of the non-disclosure agreement included at the end of this document.

Page 40 Responses

The information provided on p.6 appears to conflict with the information provided on **p.40** in the fee schedule. For example, the 20 Hedge Funds don't appear to be included in the account volumes on p.40.

The 20 Hedge Funds are currently in one custody account. Each hedge fund is handled like a memo line item and the overall account generates less than 20 transactions per year and would not be part of a securities lending comparison.

The international equity market value of \$399 million on **p.40** consists of Axiom and Baillie Gifford from p.6. However, the International Equity transaction volume on p.40 of 7,750 consists of Axiom, Baillie Gifford, and T. Rowe Price Global Large Cap from p.6.

All trade volumes and market values on page 40 are approximate and may not tie directly to equal the managers on page 6, however the international equity value on page 40 should also include T. Rowe Price Global Large Cap and the market value of \$403 from page 6 and \$403 should be subtracted from the commingled line on page 40. The trade volume accurately sums the values from our international equity account including Axiom, Baillie Gifford T. Rowe Price Global Large Cap from page 6.

Please confirm that the OPEB Trust and Volunteer Firemen's Plan require separate fees and that their account numbers and assets aren't included in the fee grid on **p.40**.

Currently the OPEB Trust is a separate relationship and priced separately. Page 40 does not reflect the OPEB Trust volumes or market values, the OPEB volume is about 20 trades per year with 3 mutual fund accounts and a cash account in a separate trust.

The Volunteer Firemen's Plan consists of 4 accounts under DPERS and is included with all other accounts under DPERS for pricing. The Volunteer Firemen's Plan is included in the data on page 40. The trade volume of this plan is approximately 10-20 trades per year in 3 mutual fund accounts and a separate cash account.

Can you confirm the number of alternative investments (i.e. number of hedge funds, private equity, funds, etc) in your portfolios?

Alternative investments include: 72 private equity, 5 hedge fund accounts (1 account includes up to 20 manager memo lines)

Page 40 of the RFP indicates there are a total of 12 Separate Accounts and 88 Commingled Accounts, however on page 6 we see a total of 13 Separates and 112 Commingled/Line Items (16 Commingled or Mutual Funds, 20 Hedge FoFs, 76 PE / Hedge Funds). Can you advise the difference in the number of alternatives stated in the RFP and above?

The difference is in one hedge fund account which contains 20 manager memo lines. Numbers on page 40 are based on estimates.

For the Commingled Accounts, it appears that there are some of the accounts hold multiple line items. Please provide additional details around this structure and/or for those accounts holding more than 1 line item. Can you please provide the number of line items per account?

The Mellon TAA account has 3 memo line items, and the 1 hedge manager account has up to 20 memo line items.

For alternative asset performance: Can you please provide clarification on the "customized index" (that you want your rate of return compared to)?

38% Ru3000, 20% MSCI ACWI ex-US, 38.5% Barclays Universal, 1.5% Barclays TIPS, 2% 90-day T-bills

Are you currently receiving specific reporting or servicing for your alternative assets (i.e. Private I)? If yes, can you elaborate on the specific service? For example, are you receiving Fund-Level Performance Reporting with benchmarking for these assets?

Currently receiving fund level and asset class performance reporting, distribution and capital call adjustment for market value reporting. We are not using Private I.

Can you please advise who is your current custodian for each of the funds contemplated in the RFP?

As indicated in our annual Comprehensive Annual Report located at www.delawarepensions.com , Northern Trust is our current Custodian bank.

What was the total dollar value (fees) paid to your custodian/s for the year 2011?

We published in our Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011, custody fees of \$195,000.

Is it acceptable for bidders to provide electronic copies only (email) of our SSAE 16 or SAS 70 reports instead of physical copies for the SSAE 16 or SAS 70 reports required? Please confirm if you would accept electronic copies only?

As long as they are in a format (such as pdf or other) that we can readily print for our audit purposes.

Can you please advise the name of the person(s) who will be contacting our references and the timeframe when they plan to call?

Members of the Proposal Evaluation Team may conduct reference checks. References will be contacted during the process after interviews are conducted.

Please provide more detail on the need for "cashiering" of pension contributions?

Please provide additional information on your requirement for "cashiering of pension contributions" listed on **Appendix A, p. 63.**

Some of the DPERS plan employers send their employer/employee pension contribution directly to the custodian for deposit in the commingled STIF account, designated for the benefit of the corresponding pension plan. Each employer/entity has a transmittal form created by DPERS and approved by the custodian (much

like a deposit slip), that identifies the entity, the STIF account, the amount of the employer and employee contributions, and the total contribution. In addition, the form identifies the name of the entity's transaction profile, which includes all the established default information needed by the custodian for efficient processing. The transmittal form is mailed with the check to the custodian, or is faxed in advance of a payment by wire or ACH. Most entities pay once a month, although some remit on other schedules.

The plans involved are:

The County & Municipal Police and Firefighters' Pension Plans, whose members remit approx. 380 deposits annually, approx. 48 transactions are wire/ACH,

The County & Municipal Other Employees' Pension Plan, whose members remit approx. 430 deposits annually, approx. 48 transactions are wire/ACH,

The Diamond State Port Corporation Plan, which remits approximately 12 wired deposits per year,

The Delaware Volunteer Firemen's Fund, whose members remit approx. 18 deposits per year, 1 large wire annually with smaller deposits by check.

Benefits Payment (not in scope)

Can you confirm who your current benefit payment provider is? Alternatively, are you performing these services in-house?

Benefit payments are handled in-house.

How many benefit payments do you process / issue per month? Can you provide a percentage of checks issued vs? % electronic transfers?

This is not within the scope of the RFP.

Are you currently utilizing a retiree website today?

Information for retirees and active employees is updated on the Office website, www.delawarepensions.com

Other

May we receive the RFP Questionnaire in Word format?

A copy of the RFP document in Word will be separately emailed to qualified responders of this RFP who request it.



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NONDISCLOSURE AGREEMENT

Re: Request for Proposal: Global Custody Services Bid Number OMBOOP12100-GlvcustSv
Response Due February 29, 2012

_____ [Name of Entity] and _____, as its authorized representative, agrees to be bound by the terms of this non-disclosure agreement ("NDA") with the Delaware Public Employees' Retirement System ("DPERS"). 29 Del. C. § 8308(d) provides that information relating to investments is not subject to the Freedom of Information Act provisions in 29 Del. C. § 10001. As such, the below signed entity agrees that any investment, financial, accounting, statistical and other information pertaining to the DPERS in the course of considering a response to the Request for Proposals for Global Custody Services Bid Number OMB12100-GlvcustSv (RFP) shall be treated as non-public, confidential information shall not be released or made available to any individual or organization without the prior written approval of the Delaware Public Employees' Retirement System and shall use reasonable efforts to give DPERS prior advanced written notice of any required disclosure as may be necessary to comply with the regulations of any governmental or self-regulatory organization or with the order of any court of adjudicative body of competent jurisdiction. All information must be properly secured to prevent unauthorized access. Additionally, it shall not disclose such confidential information to any third parties, nor use such confidential information for any other purpose than for developing a response to the named RFP.

The undersigned is the designated individual authorized to act on behalf of _____.

This NDA shall be governed by and construed and enforced in accordance with the laws of Delaware without regard to principles of conflicts of law to the extent such principles would result in the application of the laws of another jurisdiction.

Signature : _____

Contact Information:

Print Name: _____

Phone: _____

Vendor Name: _____

Email: _____

Address: _____

Date: _____

Please email your completed form to Wade.Sallings@state.de.us, or fax it to DPERS at 302-739-7946